


AR79

extendicare (canada) ltd.  annual report 1973



Financial Highlights

	1973	1972	1971
Revenues			
From Skilled Nursing Centres	\$11,192,215	\$ 5,677,280	\$1,412,313
From Diagnostic and X-Ray Services	2,900,319	2,238,353	387,288
Gross Revenue	14,092,534	7,915,633	1,799,601
Net Earnings (Loss) before tax	1,782,788	376,889	(612,425)
Provision for Income Taxes	837,808	171,233	7,023
Net Earnings (Loss) before extraordinary items	944,980	205,656	(619,448)
Per share	.59	.13	(.39)
Extraordinary Items			
Gain on sale of properties	—	16,135	—
Reduction of Income Taxes due to application of prior years' losses	221,000	174,839	—
Net earnings after extraordinary items	1,165,980	396,630	(619,448)
Per share	.72	.25	(.39)
Cash flow from (to) operations	2,471,325	897,752	(370,873)
Per share	1.53	.56	(.23)
Total Assets	28,746,579	22,613,422	19,818,109
Available Nursing Centre beds at August 31	2,943	2,036	963

Note: The per share figures have been recalculated to reflect the 2 for 1 stock split of May 11, 1973.

Statistical Highlights

Operational Nursing Centres	Number of Licensed Beds		Percentage Occupancy of Operational Beds
	Total	Operational	
August 31st, 1970	639	639	22.7%
February 28th, 1971	809	809	31.2%
August 31st, 1971	960	809	57.3%
February 29th, 1972	1,816	1,113	64.8%
August 31st, 1972	2,036	1,824	85.1%
February 28th, 1973	2,340	2,104	96.0%
August 31st, 1973	2,943	2,684	96.9%
October 1st, 1973	3,217	2,958	96.9%

Senior Management

HAROLD L. LIVERGANT

Chairman of the Board

Mr. Livergant has an extensive background in accounting, hospital administration, and as a management consultant. He has a degree in Accounting (University of Saskatchewan); a diploma in Hospital Administration (University of Toronto); and a certificate in hospital organization and management (Canadian Hospital Association). He has also served as Executive Director of the Metropolitan Toronto Hospital Planning Council.

JOHN MacKAY

President

Mr. MacKay has been involved in all aspects of hospital administration, from initial planning and construction coordination to actual organization of multi-hundred bed hospitals. He has a Commerce degree (University of British Columbia) and a diploma in Hospital Administration (University of Toronto). He was formerly Administrator of North York General Hospital, Toronto and Peterborough Civic Hospital, Peterborough, Ontario.

LEFT TO RIGHT

JACOB BIRBRAGER, B.Sc. (Eng.), *Vice-President, Development*; DON DAL BIANCO, C.A., *(standing) Vice-President, (Finance)*; WILLIAM JAPPY, B.Sc. (Pharm.), D.H.A., *Vice-President, Services*; and JIM ENGLISH, B.A., *Vice-President, Operations*.



Chairman's Remarks

During the fiscal year ended August 31, 1973 your company successfully provided 726,604 patient days of high quality extended care through its skilled nursing centre division. As a result of improvements in both quality of care and speed and accuracy of testing, our Diagnostic Services Division provided laboratory and x-ray services to 225,000 persons who were patients of approximately 360 physicians.

Consolidated revenue for both divisions was \$14,092,534 compared with \$7,915,633 in the previous 12 month period. Net earnings from continuing operations for the year were \$944,980, or 59¢ per share, compared to earnings for fiscal 1972 of \$205,656 or 13¢ per share.

The impact of the run-away cost of living affected earnings in the fourth quarter of fiscal 1973 and is expected to have a similar effect in fiscal 1974 until such time as regulatory authorities increase the rates of payment for services being provided. Ontario announced an increase on January 1, 1974 and it is expected that Saskatchewan will announce an increase on April 1, 1974.

During the year Extendicare continued extensive expansion in both its main divisions. The number of licensed beds operated by the company increased by 907 to 2,943. The volume of laboratory tests and x-ray examinations increased from 800,000 to 1,000,000.

During fiscal 1973 Extendicare purchased two nursing centres located in Oshawa and Ottawa with a total licensed bed capacity of 368 beds from Medex Nursing Homes Limited. More recently Extendicare announced the acquisition of a Saskatchewan-based nursing centre operation from Trizec Equities Ltd., comprising three Central Park Lodge nursing centres in Regina, Saskatoon and Moose Jaw, with a total licensed bed capacity of 274 beds. Simultaneously with the completion of this acquisition your company agreed to sell its 152-bed Saskatoon nursing centre to the Government of Saskatchewan in the early part of 1974 so that it could be converted into a chronic care hospital. Extendicare will be retained by the Province to provide complete management services for the hospital on a long-term basis.

Expansion is expected to continue during 1974. Extendicare's skilled nursing centre division has construction and development plans underway for new skilled

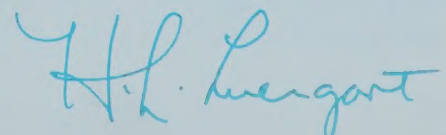
nursing centres, as well as additions to existing centres to further increase existing capacity by approximately 600 beds. In addition, we expect that a number of new diagnostic centres will be opened during the coming year.

Your company became wholly Canadian-owned during 1973 with the sale to Canadian shareholders of all of the shares of your company previously held by Extendicare, Inc., a resident of the United States. This was an achievement of which we were justifiably proud, for although our affiliation with Extendicare, Inc. was vital to the establishment of Extendicare in Canada, it was felt that a wholly Canadian-owned operation was in the best interests both of the shareholders of the company and of the country which it was formed to serve.

On May 11, 1973, with the objective of broadening the base of Canadian public ownership in the company, its common shares were split on a two-for-one basis. During the last quarter of fiscal 1973, Extendicare paid its first quarterly dividend to its shareholders. A second quarterly dividend was paid during the first quarter of fiscal 1974.

Of great significance to your company is its entry, in a meaningful way, into providing management and development services to other owners of health care facilities. Agreements have been entered into whereby Extendicare will manage a hospital in Saskatchewan for the Government of the Province, and develop a nursing home in Sault Ste. Marie, Ontario for a group of private investors. We anticipate entering into an agreement in the near future for the provision of management services for the Sault Ste. Marie centre. We are confident that Extendicare's success, experienced personnel, established reporting and control systems will lead to agreements of a similar nature in the coming years.

Canada continues to face the problems of escalating health care costs. Governments and others continue to seek ways of slowing down this escalation. Your company, through efficient management of its nursing centres and diagnostic laboratory and x-ray centres represents a tangible example of coping with this struggle. Entry into the management and development field indicates Extendicare's further interest in assisting in the development of a balanced and integrated health care delivery system dedicated to high levels of care at reasonable levels of costs.





Skilled Nursing Centre Division

The Skilled Nursing Centre Division of Extendicare underwent significant expansion during the last fiscal year. In keeping with our primary objective—quality health care at economical cost levels—each nursing centre is equipped to provide medical and hospital-type services as required in the care of the aged and chronically ill. This division—through its 19 centres presently located in Ontario, Quebec and Saskatchewan employs more than 1,900 people.

Acquisitions in 1973 included a leased, 304-bed Toronto centre; two Medex centres in Oshawa and Ottawa containing 175 and 193 beds respectively; and a Saskatchewan-based nursing home operation with centres in Regina, Saskatoon and Moose Jaw, comprising 274 beds. In addition, a recently constructed, leased, 235-bed nursing centre opened in July in Sudbury. The addition of these seven centres increased Extendicare's total licensed bed capacity, as at December 31, 1973, to 3,217.

All Extendicare nursing centres offer facilities for the aged and chronically ill in a residential style setting.

Residents are provided with 24-hour professional nursing care, occupational therapy programs (including hobbies and crafts), and spacious indoor and outdoor recreational facilities. Family and friends enjoy extended visiting hours. Professionally supervised dietary kitchens offer diets balanced to individual needs. A medical advisory committee reviews resident-patient needs.

Under the Ontario Extended Health Care Program, the Government shares the costs of nursing care with residents of our skilled nursing centres.

To meet the growing demand for high quality health care facilities, we anticipate continued expansion of our Skilled Nursing Centre Division by either acquiring and developing new facilities or expanding existing centres. During the coming year we anticipate opening new centres in Kingston and Sault Ste. Marie, Ontario, and in Montreal, Quebec. By the end of fiscal 1974 these, together with additions to our centres in North York and London will increase our total licensed bed capacity by approximately 600 beds.



Diagnostic Services Division

The increasing success of Extendicare's Diagnostic Services Division during the past fiscal year is demonstrated by a 25 per cent increase in the volume of its medical testing, with 1,000,000 laboratory and x-ray examinations being provided to more than 225,000 patients.

Acquisition of two x-ray facilities and a laboratory, along with the development of a laboratory centre in Metropolitan Toronto, has enabled our Diagnostic Services Division to expand into all but one of the five boroughs of Metro. This division now employs more than 140 people.

With the addition of these four new facilities during fiscal 1973 the Diagnostic Services Division now has 13 laboratories and nine x-ray facilities, all located in Metropolitan Toronto.

All of our facilities are equipped to provide a wide range of routine medical testing services, although the majority of special testing is done at our North York diagnostic centre. Quick and accurate result reporting, free pick up and delivery services, 24-hour consultant services, as well as Saturday morning and weekday evening service are all factors contributing to the high level of success of this division.

Our success in the diagnostic field of health care delivery can, in part be attributed to the ability of our competent technical staff to meet the requirements of

the medical profession by providing high quality service through the utilization of the latest techniques and equipment in all areas of medical testing.

The staff of Extendicare's Diagnostic Services Division is supervised and directed by a group of professional consultants in both laboratory medicine and radiology. These are our consultants:

Radiology Consultants

J. D. Levine, B.Sc., M.D.C.M., D.M.R., F.R.C.P.(C)
B. S. Zitsow, M.D., B.Sc., (Med), D.M.R., F.R.C.P.(C)
B. Awerbuck, M.D., F.R.C.P.(C)
V. A. Briggs, M.B.Ch.B., D.M.R.D., F.F.R.

Laboratory Consultants

L. W. Macpherson, M.R.C.V.S., D.V.S.M., Ph.D.
P. K. O'Brien, M.B., F.R.C.P.(C), M.R.C.(PATH)
J. B. Campbell, B.Sc., Ph.D.
R. K. Murray, M.B., Ch.B., M.S., Ph.D.
P. L. Seyfried, B.S.A., M.S.A.
A. Kolin, M.D., F.R.C.P.(C)
R. E. Fulton, B.A., M.Sc.

With the volume of testing expected to increase during the coming fiscal year, Extendicare will continue to expand the Diagnostic Services Division through the acquisition of existing facilities and development of new facilities.

Diagnostic Service Facilities —

Location	Service
2780 Jane Street	Laboratory
4700 Jane Street	Laboratory
648 Bathurst Street	Laboratory
400 The East Mall	Laboratory
8220 Bayview Avenue	Laboratory
4430 Bathurst Street	X-Ray
4949 Bathurst Street	X-Ray and Laboratory
4800 Leslie Street	X-Ray and Laboratory
2722 Bayview Avenue	X-Ray and Laboratory
130 Ellesmere Road	X-Ray and Laboratory
1260 Lawrence Avenue East	X-Ray and Laboratory
3042 Keele Street	X-Ray and Laboratory

This year's additions

3326 Keele Street	X-Ray and Laboratory
1576 Weston Road	X-Ray and Laboratory



Management and Development Services

Management and Development Services—related to nursing homes, hospitals, medical clinics and other health care facilities—represent not only a significant but a logical step forward for Extendicare.

In the specialized field of Management, Extendicare now provides complete management, supervision and operation of health care facilities, including—for the first time by a private health care organization in Canada—hospitals. Such services are on a contractual basis and are available to private, public and charitable organizations.

In the field of Development, Extendicare designs, develops and erects nursing centres, hospitals and other health care facilities.

Management and development services range from the determination of a public need to the actual operation of the facility. Our capability in both fields stems primarily from the wide experience of senior Extendicare personnel particularly in the areas of planning, financing, management, cost control and construction management. Their versatile backgrounds in the management and operation of hospitals and other health care facilities enable them to apply sound, contemporary business methods to health care delivery.

Extendicare has recently entered into an agreement with the government of the Province of Saskatchewan for the management and operation of a chronic care hospital in Saskatoon. Extendicare has agreed to sell its 152-bed centre in Saskatoon to the Province early in 1974 and will provide complete management services for this institution as a hospital on a long-term basis.

We have also entered into a development agreement on a fixed fee basis involving the construction of a 120-bed nursing centre in Sault Ste. Marie, Ontario. The centre is scheduled for completion in March 1974 and Extendicare expects to provide management services on a long-term basis for this centre.

Our long, direct and highly successful involvement in the nursing home and diagnostic services fields provides us with the expertise necessary to operate this new division of Extendicare. We are confident that Extendicare's management and development services will become a successful part of your company.



Pharmaceutical Services

Extendicare, through a wholly-owned subsidiary—Royal Drugs, Inc.—has further broadened its operations in the health care field with the addition of pharmaceutical services. These services are designed primarily for residents of our skilled nursing centres.

Royal Drugs, Inc., located at Highbourne Lodge nursing centre in the Metropolitan Toronto borough of Etobicoke, provides drug services for Oshawa and all of Extendicare's Toronto locations. Pharmaceutical services are made available to Extendicare nursing centres in Ottawa through a dispensary located in that city.

In the coming year we will be broadening our pharmaceutical services to meet the requirements of residents in other nursing homes as well as to Extendicare nursing centres in other parts of Ontario, and to the general public.

Extendicare Facilities — Nursing Home Division

Location	Licensed Beds
London	170
Moose Jaw	127
Montreal	212*
Oakville	178
Oshawa—Medex	175
Ottawa—Starwood	192
—New Orchard	103
—Medex	193
Peterborough	166
Regina—	150
—	65
Saskatoon—	152***
—	82
St. Catharines	152
Sudbury	235**
Toronto—Highbourne	304**
—Mississauga	202
—North York	204
—Scarborough	155
Total	3,217

*51% owned and managed.

**Facilities leased.

***To be sold and managed.

Facilities Under Development

Location	Net Additional Beds
Kingston, Ontario (new facility)	150
London, Ontario (addition)	60
North York, Ontario (addition)	75
Sault Ste. Marie, Ontario (new facility)	120
Montreal, Quebec (new facility)	200
Net Additional beds under development	605

extendicare (canada) ltd. and subsidiary companies
(Incorporated under the laws of Canada)

ASSETS

1973

1972

Current

Cash

Accounts receivable

Inventories, at cost

Prepaid expenses and deposits

Trust funds held for residents

		\$ 18,178
\$ 1,425,060		1,140,750
394,759		274,959
578,451		194,784
102,499		31,908
<u>2,500,769</u>		<u>1,660,579</u>

Fixed (note 2)

Property and equipment, at cost

Less accumulated depreciation

24,232,347	18,549,925
<u>1,311,277</u>	<u>717,518</u>
<u>22,921,070</u>	<u>17,832,407</u>

Other

Debt costs, less amortization (note 2)

Deferred operating costs, less amortization (note 3)

Goodwill, at cost (note 4)

Other, at cost

8,410	453,598
361,870	302,208
2,804,834	2,255,713
<u>149,626</u>	<u>108,917</u>
<u>3,324,740</u>	<u>3,120,436</u>
<u>\$28,746,579</u>	<u>\$22,613,422</u>

Auditors' Report

To the Shareholders of
Extendicare (Canada) Ltd.

We have examined the consolidated balance sheet of Extendicare (Canada) Ltd. and subsidiary companies as at August 31, 1973 and the consolidated statements of earnings, retained earnings (deficit) and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Gunn & Co.
Chartered Accountant

Toronto, Canada
November 20, 1973

consolidated balance sheet—august 31, 1973

(with comparative amounts as at August 31, 1972)

LIABILITIES

1973

1972

Current

Bank indebtedness (secured by assignment of accounts receivable and a debenture creating a floating charge on assets)

\$ 224,016

\$ 450,000

Accounts payable and accrued liabilities

1,418,336

1,068,254

Principal due within one year on long-term debt

1,481,000

357,500

Trust funds held for residents

102,499

31,908

3,225,851

1,907,662

Long-Term Debt (note 5)

21,009,836

17,979,829

Deferred Income Taxes (note 6)

637,808

Minority Interest in Subsidiary

4,900

4,900

Shareholders' Equity

Capital stock (note 7)

Authorized

4,000,000 Common shares without nominal or par value

500,000 Preferred shares of the par value of \$10 each

Issued and fully paid

1,613,850 Common shares (1972—1,610,000

common shares)

3,127,193

3,113,743

Retained earnings (deficit)

740,991

(392,712)

3,868,184

2,721,031

\$28,746,579

\$22,613,422

Commitments and contingencies (notes 10 and 11)

Approved by the Board

Director



Director



consolidated statement of earnings

YEAR ENDED AUGUST 31, 1973 (with comparative amounts for 1972)

	1973	1972
Revenue		
Skilled nursing centres	\$11,192,215	\$ 5,677,280
Diagnostic and x-ray services	2,900,319	2,238,353
	<u>14,092,534</u>	<u>7,915,633</u>
Costs and expenses		
Operating	9,442,901	5,317,118
Administrative and general	491,626	498,179
Interest on long-term debt	1,675,483	1,202,584
Depreciation (note 2)	543,103	376,314
Amortization of debt and deferred operating costs (notes 2 and 3)	156,633	144,549
	<u>12,309,746</u>	<u>7,538,744</u>
Earnings before income taxes and extraordinary items	<u>1,782,788</u>	<u>376,889</u>
Income taxes		
Current	221,000	171,233
Deferred	616,808	
	<u>837,808</u>	<u>171,233</u>
Earnings before extraordinary items	<u>944,980</u>	<u>205,656</u>
Extraordinary items		
Gain on sale of properties, net of income taxes		16,135
Reduction of income taxes due to application of prior years' losses	221,000	174,839
	<u>221,000</u>	<u>174,839</u>
Net earnings for year	<u>\$ 1,165,980</u>	<u>\$ 396,630</u>
Net earnings per share (note 8)		
Before extraordinary items	59c	13c
After extraordinary items	72c	25c

consolidated statement of retained earnings (deficit)

YEAR ENDED AUGUST 31, 1973 (with comparative amounts for 1972)

	1973	1972
Deficit at beginning of year	\$ 392,712	\$ 789,342
Net earnings for year	1,165,980	396,630
	<u>773,268</u>	<u>(392,712)</u>
Dividends	32,277	
Retained earnings (deficit) at end of year	<u>\$ 740,991</u>	<u>\$ (392,712)</u>

consolidated statement of source and use of funds

YEAR ENDED AUGUST 31, 1973 (with comparative amounts for 1972)

	1973	1972
Source of funds		
Operations		
Net earnings for year	\$ 1,165,980	\$ 396,630
Items not involving current funds	<u>1,305,345</u>	<u>501,122</u>
	2,471,325	897,752
 Long-term debt	 4,654,345	 3,564,045
Sale of properties	199,650	98,650
Issue of shares	<u>13,450</u>	<u></u>
	7,338,770	4,560,447
 Use of funds		
Dividends paid	32,277	
Additions to property and equipment	5,362,809	3,822,934
Additions to other assets	797,345	1,140,497
Reduction of long-term debt (net of current portion)	<u>1,624,338</u>	<u>378,500</u>
	7,816,769	5,341,931
 Decrease in working capital position	 477,999	 781,484
 Working capital (deficiency) at beginning of year	 <u>(247,083)</u>	 <u>534,401</u>
 Working capital (deficiency) at end of year	 <u>\$ (725,082)</u>	 <u>\$ (247,083)</u>

notes to consolidated financial statements

AUGUST 31, 1973

1. Principles of Consolidation

The consolidated financial statements include the accounts of Extendicare (Canada) Ltd., all its wholly-owned subsidiaries and its 51% owned subsidiary, Extendicare (Quebec) Ltd.

Earnings from businesses acquired or sold are included only from the dates of their acquisition or to the dates of their sale.

During the year ended August 31, 1973 the company acquired the following companies and businesses. All acquisitions were made by agreement and in all cases the purchase accounting method was used.

	Type of Acquisition	Effective Date of Acquisition
Medex Nursing Centres—Oshawa and Ottawa	assets acquired	July 1, 1973
Royal Drugs, Inc. (Pharmacy)	100% of outstanding shares acquired	June 1, 1973
Highbourne Lodge Nursing Centre	assets acquired	December 18, 1972
Feron and Sanvi Diagnostic Facilities	assets acquired	November 1, 1972
Weston Radiological Facilities Limited (Diagnostic Facility)	100% of outstanding shares acquired	November 1, 1972

The acquisition equation for the above companies and businesses is as follows:

Net assets acquired	
Net assets other than goodwill	
Valued at book value of seller	\$ 73,412
Valued at purchase price	2,018,070
	2,091,482
Premium ascribed to goodwill	549,121
	<u>\$2,640,603</u>
Consideration given, at fair value for the net assets	
Cash	\$2,415,503
Notes, interest at 7% and 8% maturing 1973 through 1980	225,100
	<u>\$2,640,603</u>

2. Property and Equipment

	1973		1972	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Deposits on properties	\$ 89,547		\$ 8,000	
Buildings	17,937,001	\$ 834,707	14,298,114	\$479,712
Furniture and equipment	3,415,690	426,837	2,117,821	215,353
Leasehold improvements	233,206	49,733	115,821	22,453
Construction in progress	105,976			
	21,781,420	1,311,277	16,539,756	717,518
Land	2,450,927		2,010,169	
	<u>\$24,232,347</u>	<u>\$1,311,277</u>	<u>\$18,549,925</u>	<u>\$717,518</u>

Depreciation is provided on a straight-line basis over useful lives estimated as follows:

Buildings	— 40 years
Furniture and equipment	— predominately 15 years
Leasehold improvements	— the term of the lease

Effective September 1, 1972, costs associated with the issue of long-term debt, the proceeds of which were used to acquire nursing centres, have been included as part of the cost of the respective centres. Accordingly costs previously considered as deferred charges to be amortized on a straight-line basis over the term of the applicable debt have been reclassified to property and equipment.

This change does not have a material effect on net earnings for the year ended August 31, 1973.

3. Deferred Operating Costs

It is the policy of the company to defer revenues and operating expenses of centres until such time as they are deemed operational. Effective September 1, 1972, a centre is deemed operational in the month when the break-even point is achieved or one year from the date of accepting the first resident, whichever first occurs. In previous periods a centre was deemed operational after either an occupancy level of 25% was achieved or the expiration of four months from the date of acceptance of the first resident, whichever first occurred. In addition, for centres deemed operational subsequent to September 1, 1972, the amortization to income of amounts deferred has been extended to five years from three years on a straight-line basis.

This change does not have a material effect on net earnings for the year ended August 31, 1973.

4. Goodwill

Goodwill is carried in the accounts at cost without amortization. The amount is made up as follows :

	1973	1972
Purchased goodwill	\$2,607,246	\$2,255,713
Excess of purchase price of shares of certain subsidiary companies over net book value of assets acquired	197,588	
	<u>\$2,804,834</u>	<u>\$2,255,713</u>

5. Long-Term Debt

The Company :

First mortgages, 9½% to 11%, maturing 1975 through to 2007	\$13,123,983	\$10,659,762
Second mortgages, 8% to 12%, maturing 1973 through to 1977	717,762	626,562
Convertible notes, 5½% to 7%, maturing 1979 through to 1980	1,528,000	1,528,000
8½% Sinking fund debentures, due 1984	2,879,000	2,879,000
Bank demand loan, due \$100,000 per month (secured by assignment of accounts receivable and a debenture creating a floating charge on assets)	1,515,032	
Sundry indebtedness	517,413	421,200

Subsidiaries :

First mortgages, 7% to 10%, maturing 1976 through to 2001	1,914,065	1,938,568
Second mortgages, 7½% to 9%, maturing 1974 through to 1976	295,581	284,237

	<u>22,490,836</u>	<u>18,337,329</u>
Less principal included in current liabilities	<u>1,481,000</u>	<u>357,500</u>
	<u>\$21,009,836</u>	<u>\$17,979,829</u>

Principal payments on long-term debt due within five years are as follows :

1974	\$1,481,000
1975	1,749,000
1976	1,016,000
1977	2,447,000
1978	919,000

The trust indenture securing the 8½% sinking fund debentures requires annual sinking fund payments of \$300,000 in each of the years 1975 to 1983, both inclusive. The debentures are redeemable at the option of the company at premiums varying according to the date of redemption. The company has purchased for cancellation \$121,000 principal amount of debentures thereby reducing the sinking fund payment due in 1975 to \$179,000.

An additional \$216,000 of the company's 6½% convertible notes maturing March 24, 1980 are reserved for issuance as consideration for additional goodwill generated for the benefit of the company in the event that certain conditions are met in one of the laboratory facilities acquired by the company.

Conversion privileges and rights relating to long-term debt are set out in note 7.

6. Deferred Income Taxes

Deferred income taxes arise from amounts claimed for income tax purposes in excess of those recorded in the accounts of the company and its subsidiaries.

7. Shareholders' Equity

By supplementary letters patent dated May 11, 1973 the issued and unissued common shares of the company were subdivided on a 2 for 1 basis. All references to numbers and prices of common shares and to earnings per share have been adjusted to give effect to the 2 for 1 split.

During the year ended August 31, 1973 the company issued 3,850 common shares for \$13,450 cash on exercise of stock options and warrants.

Restrictions under the trust indenture securing the 8½% sinking fund debentures prohibit the payment of dividends which would reduce shareholders' equity, as defined in the trust indenture, below \$3,000,000.

The company has 622,290 common shares reserved for conversion in connection with issued or to be issued convertible notes and for issue upon exercise of outstanding warrants at prices ranging from \$5.00 to \$7.50 per common share for periods ranging from May 15, 1974 to May 15, 1979.

In addition 100,000 common shares have been reserved for issuance to officers and key employees under the company's Employee Stock Option Plan.

At August 31, 1973, 32,500 shares were optioned to officers and 19,400 shares to other employees at prices ranging from \$3.00 to \$7.00 with varying expiry dates to June, 1978.

8. Earnings per Common Share

Earnings per common share have been calculated on the weighted average number of shares outstanding during the year after adjustment for the 2 for 1 stock split.

Fully diluted earnings per share are 49¢ before extraordinary item and 59¢ after extraordinary item for the year ended August 31, 1973. Fully diluted earnings per share have been calculated on the basis of the following assumptions:

- (a) the conversion at the beginning of the year of convertible notes issued or to be issued resulting in an increase in earnings of \$54,064, after tax; and
- (b) the exercise at the beginning of the year of all rights and options with imputed earnings, after tax, at 5.7% amounting to \$114,879 on the cash received which would have been used to retire a second mortgage and a major portion of bank indebtedness.

There was no dilutive effect on earnings per share for 1972.

9. Other Statutory Information

	1973	1972
Number of directors	9	9
Aggregate remuneration of directors as directors	\$ 5,000	\$ 5,000
Number of officers (including 1 retired in 1973— 3 in 1972)	10	9
Aggregate remuneration of officers as officers	\$174,924	\$163,455
Number of officers who were also directors	2	2

10. Lease Commitments

The company has lease commitments with terms expiring up to 1998, exclusive of renewals. Maximum annual rentals to be charged to operations during each of the next five years will be approximately \$642,000. During the year ended August 31, 1973 rent expense of \$380,638 has been charged to operations.

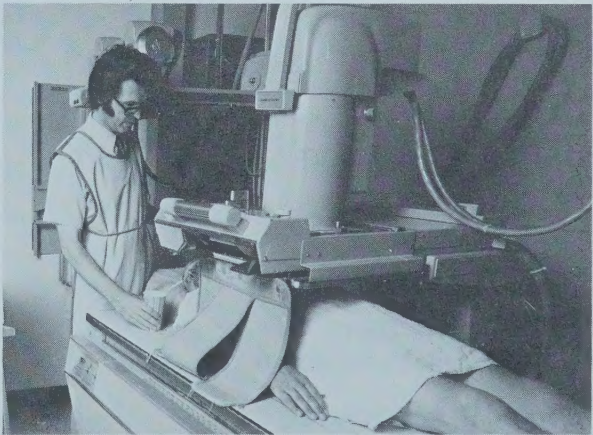
11. Contingent Liabilities

As a result of its purchase of particular diagnostic facilities in 1971 the company assumed a contingent liability of up to \$150,000 under a mortgage indemnity agreement and up to \$30,770 under a bank guarantee. The company has since reduced its liability under the mortgage indemnity agreement to \$100,000 by loaning \$55,000 to a joint venture consisting of 19 physicians on the security of a second mortgage of a medical building owned by them.

12. Subsequent Events

- (a) Effective October 1, 1973 the company purchased the nursing home business of Trizec Equities Limited in the Province of Saskatchewan for cash, the assumption of existing first mortgages and the giving back of a 9% second mortgage.
- (b) Under agreements dated November 20, 1973 and November 7, 1973 respectively the company agreed to sell its existing nursing centre in Saskatoon to the Province of Saskatchewan by no later than April, 1974, for cash payment and the assumption of an existing first mortgage and to manage and operate the facility for the Province as a chronic care hospital for a period ending December 31, 1978 for a fixed fee with annual increases.

Extendicare



Board of Directors

HAROLD L. LIVERGANT

Chairman of the Board

JOHN MacKAY

President

JAMES A. BRADSHAW

Solicitor; Campbell, Godfrey & Lewtas

DAVID A. BULLOCK

Underwriter, Burns Bros. and Denton

H. HOYLE CAMPBELL, M.D.

Surgeon

WILLIAM E. HEWITT

Vice-President, Finance, Allpak Products Limited

DERRIL G. McLEOD

Solicitor; Pedersen, Norman, McLeod & Todd

J. RUSSELL SCOTT, M.D.

Physician

JEAN-PAUL TESSIER

President, BGL Construction

Officers

HAROLD L. LIVERGANT

Chairman of the Board

JOHN MacKAY

President

JACOB BIRBRAGER

Vice-President, Development

DONALD J. DAL BIANCO

Vice-President, Finance

JAMES E. ENGLISH

Vice-President, Operations

WILLIAM C. JAPPY

Vice-President, Services

J. WESLEY CARTER

Treasurer

BENJAMIN J. HUTZEL

Secretary

Medical and Technical Advisory Board

B. AWERBUCK, M.D., F.R.C.P.(C)

V. A. BRIGGS, M.B.Ch.B., D.M.R.D., F.F.R.

J. B. CAMPBELL, B.Sc., Ph.D.

J. W. CLUFF, M.D., F.R.C.S.(C)

R. E. FULTON, B.A., M. Sc.

D. E. HUNT, M.D., F.C.F.P.

A. KOLIN, M.D., F.R.C.P.(C)

J. D. LEVINE, B.Sc., M.D.C.M., D.M.R., F.R.C.P.(C)

L. W. MACPHERSON, M.R.C.V.S., D.V.S.M., Ph.D.

R. K. MURRAY, M.B., Ch.B., M.S., Ph.D.

P. K. O'BRIEN, M.B., F.R.C.P.(C), M.R.C.(PATH)

P. L. SEYFRIED, B.S.A., M.S.A.

H. G. WEAVER, M.D.

W. W. WEAVER, M.D., M.C.F.P.

B. S. ZITSOW, M.D., B.Sc. (Med), D.M.R., F.R.C.P.(C)

TRANSFER AGENTS FOR COMMON SHARES

Montreal Trust Company

TRUSTEE FOR DEBENTURES

Canada Permanent Trust Company

AUDITORS

Thorne, Gunn & Co.

LEGAL COUNSEL

Campbell, Godfrey & Lewtas

